

CHAPTER 2. MORTGAGEE APPROVAL

- 2-1 ROLE OF MORTGAGEE. The authority to participate in the Direct Endorsement program is a privilege, granted on the basis of demonstrated qualifications, experience and expertise. The privilege is maintained by recommending for mortgage insurance endorsement only those mortgages which meet HUD guidelines. A Direct Endorsement mortgagee must conduct its business operations in accordance with accepted sound mortgage lending practices, ethics and standards.
- 2-2 ELIGIBILITY REQUIREMENTS. Each office of a mortgagee (main office and branches) must be approved by the HUD Field Office(s) to which it intends to submit mortgages for insurance. There is one exception to this general rule. A mortgagee which has been approved for Direct Endorsement in at least one HUD Field Office, may process and submit streamline refinance cases to any HUD Field Office after notifying the office of its intentions. Streamline refinances are described in Chapter 4 of HUD Handbook 4155.1.

To be approved as a Direct Endorsement mortgagee, an applicant must meet and maintain the following requirements:

- A. Must be a HUD-approved mortgagee. This includes supervised mortgagees, non-supervised mortgagees and governmental institutions. Mortgagees approved by HUD only as loan correspondents are not eligible to be Direct Endorsement mortgagees; but, may participate to the limited extent described in paragraph 2-13 .
- B. Non-supervised mortgagees must have a net worth in assets acceptable to HUD of at least \$250,000.
- C. Have five years experience in the origination of single family mortgages, or have a principal officer with a minimum of five years managerial experience in the origination of single family mortgages.
- D. Have on staff an underwriter who meets the qualifications stated in paragraph 2-4 of this chapter and has successfully completed a Direct Endorsement training program.
- E. Have developed and implemented a Quality Control Plan which accommodates the objectives stated in paragraph 2-6 of this chapter.
- F. Have satisfactorily completed the pre-closing case review phase of Direct Endorsement.

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- 2-3 REQUIRED DOCUMENTS. Any office of a mortgagee (main or branch)

which intends to submit mortgages for insurance endorsement must apply for approval to the HUD Field Office(s) in the jurisdictions where they do business (see exception noted in paragraph 2-2). The following documents, as applicable, must be submitted.

- A. Application for Approval. The mortgagee is to complete Form HUD-54112, Application for Approval As Direct Endorsement Mortgagee and Nomination of Underwriting Personnel (Appendix 1). The first part concerns basic mortgagee eligibility, including qualifying status and single family origination experience. If the mortgagee (not necessarily the particular branch) has not had five years single family origination experience, the application must be completed to show such experience by principal officers.
- B. Quality Control Plan. A copy of the Quality Control Plan.
- C. Nomination and Resume of Underwriter. Each application for mortgagee approval is to include a nomination of the individual(s) to serve as the mortgagee's underwriter(s).

The nomination includes a verification by the President or Vice President (or other authorized corporate officer) that the nominee has the authority to bind the corporation and the nominee has been found to meet the qualifications of paragraph 2-4 of this Chapter.

A resume must be submitted for each underwriter nominated. Form HUD-92563, Application for Fee Personnel Designation, may be used in lieu of a resume. Whether the resume or HUD form is used, information provided must clearly show that the nominee meets the qualifications of paragraph 2-4 of this Chapter.

- D. Nominations and Resumes of Technical Personnel. As part of the application, the mortgagee is to advise HUD whether or not mortgagee staff will be used to perform appraisals, inspections and mortgage credit analyses. As with the underwriter, a resume or Form HUD-92563 is to be submitted for each nominee. The resume or the Form HUD-92563 must clearly show that the technician meets the applicable qualifications of paragraph 2-7 of this Chapter. When using a resume, include the information required on Form HUD-92563. That form is appended to HUD Handbook 4020.1.
- E. Use of Form HUD-92563, Application for Fee Personnel Designation. When using Form HUD-92563 to qualify personnel, the form may be modified. Items 14, 15, 22 and 24 may be deleted. In item 23, certifications a, b and c may be deleted. If being used for the approval of an underwriter, the top of the form should be so noted.

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F. Evidence of Prior HUD Approval. Once one office of a mortgagee has been approved by a HUD Field Office, evidence of that approval will facilitate subsequent approval to do business in other HUD offices. Similarly, if mortgagee technical staff intend to qualify with more than one HUD Field Office, once the first approval has been obtained, evidence of the approval will facilitate subsequent approvals. If a Direct Endorsement underwriter has already been approved by one HUD Field Office, the Department will grant automatic approval of the underwriter in any HUD Field Office where the lender is approved to do business.

- 1) Mortgagee Approval. Each subsequent application must include an executed application form (Appendix 1) in addition to a copy of the approval letter from another HUD Field Office.
- 2) Underwriter Approval. CHUMS will recognize any underwriter's approval in all HUD offices. Once an underwriter has obtained approval and a CHUMS identification number, it will be automatically recognized in each Field Office where a lender has been approved to do business.
- 3) Technician Approval. A copy of another office's letter approving the appraiser or inspector should be submitted with the application form.

2-4 UNDERWRITER. The mortgagee must have on staff a full-time employee to serve as underwriter. The underwriter must be a corporate officer with signatory authority or otherwise authorized to bind the mortgagee in matters involving the origination of mortgage loans. The underwriter may be employed by only one mortgagee, and this function may not be contracted out by the originating mortgagee. The underwriter must meet the qualifications and assume the responsibilities which follow.

A. Qualifications.

- 1) General. The underwriter must be a reliable and responsible professional skilled in mortgage evaluation. The underwriter must be able to demonstrate his or her knowledge and experience regarding the principles of mortgage underwriting.

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- 2) Location of Underwriter. HUD has no requirement regarding the location of the underwriter (i.e. main office or branch office).
- 3) Experience. The underwriter must have a minimum of three years full-time recent experience (or equivalent experience) reviewing both credit applications and property appraisals. Experience related solely to mortgage credit or appraisal review counts for one-half of the total requirement.

This experience should have been with an institutional investor originating for its own portfolio or purchasing these types of mortgage loans, or with an originator selling these types of mortgage loans to investors. Experience may also include quality control reviews for investors, etc.

The Mortgage Bankers Association of America (MBA) course "Appraisal Techniques for Direct Endorsement Underwriters" may be substituted for one full year of full-time experience reviewing appraisals.

The nominee's resume must give detailed descriptions of job experiences that demonstrate knowledge of principles, practices, and techniques of mortgage underwriting, including: (1) real estate appraisal, (2) mortgage credit evaluations, (3) factors affecting property values and real estate trends.

- B. Field Office Review of Underwriter Qualifications. Each underwriter's credentials must be analyzed and the underwriter approved in at least one HUD Field Office where the lender is approved to do business with the Department. The Field Office must determine that the underwriter has the experience and other qualifications as required above. The Field Office must contact references, former employers, etc., to determine the validity of the underwriter's experience claims. If the underwriter's experience includes advanced education, including college-level courses or specialized training from providers such as the Mortgage Bankers Association or other HUD Field Offices, the approving Field Office may require verification that the underwriter successfully completed the course(s). The Field Office may also request a pre-approval meeting with the underwriter, especially if there is any uncertainty regarding experience or expertise.

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In addition, the HUD Field Office reviewer must check to make sure that the underwriter has not had sanctions taken against him or her or otherwise be listed on HUD's Suspended and Debarment list, Limited Denial of Participation List, or appear on HUD's Credit Alert Interactive Voice Response System.

C. Responsibilities. HUD looks to the underwriter as the focal point of the Direct Endorsement program. The underwriter must assume the following responsibilities.

- 1) Compliance with HUD instructions, the coordination of all phases of underwriting, and the quality of decisions made under the program.
- 2) The review of appraisal reports, compliance inspections and credit analyses performed by fee and staff personnel to ensure reasonable conclusions, sound reports and compliance with HUD requirements.
- 3) The decisions relating to the acceptability of the appraisal, the inspections, the buyers capacity to repay the mortgage and the overall acceptability of the mortgage loan for HUD insurance.
- 4) The monitoring and evaluation of the performance of fee and staff personnel used for the Direct Endorsement program.
- 5) Awareness of the warning signs that may indicate irregularities, and an ability to detect fraud, as well as the responsibility that underwriting decisions are performed with due diligence in a prudent manner.

2-5 UNDERWRITING PROCEDURES. The underwriter's role and responsibility are critical elements of the Direct Endorsement program.

The underwriter executes the Underwriter Certification which enables HUD to endorse the mortgage loan without a detailed technical underwriting review. The underwriter certifies that he has personally reviewed the application documents and finds compliance with the applicable requirements. One of the underwriter's responsibilities, as stated in the previous paragraph, is the coordination of all phases of the underwriting of the mortgage loan. This role enables the underwriter to ensure that prudent underwriting procedures are followed.

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The underwriter is to be familiar with the underwriting procedures contained in Chapter 5 of HUD Handbook 4000.2, Mortgagees' Handbook - Application through Insurance. The underwriter must also be familiar with the procedures discussed in the Department's principal underwriting handbooks, 4145.1, 4150.1, and 4155.1, referenced in the Foreword.

Mortgagees are to obtain and verify information with at least the same care that would be exercised if originating a mortgage when the mortgagee would be entirely dependent on the property as security to protect its investment.

The mortgagee must review all closing statements, certifications on the closing statements, legal instruments and other documents executed at closing, and certify to HUD that the transaction and loan meet statutory and regulatory requirements of the National Housing Act and HUD, and that the loan has been closed in accordance with the terms and sales price as specified in the sales contract.

- 2-6 QUALITY CONTROL PLAN. In order to qualify for basic HUD approval, a mortgagee must implement a written quality control plan which ensures compliance with the rules, regulations and other HUD issuances regarding mortgage loan origination and servicing. Primary objectives to be achieved by the plan, and suggested underwriting and servicing guidelines, are contained in Chapter 6 of the Mortgage Approval Handbook (HUD Handbook 4060.1).

A mortgagee which seeks Direct Endorsement status must review and, when necessary, modify the existing quality control plan to ensure that the mortgagee can effectively evaluate and monitor the overall quality of mortgage loans submitted for Direct Endorsement. The quality control plan does not have to name HUD or the Direct Endorsement program. For Direct Endorsement purposes, the elements of a quality control system should include the following:

- A. Underwriting Policies. Each office of the mortgagee shall maintain copies of all available HUD underwriting guidelines. This includes handbooks, regulations, mortgagee letters and other instructions relevant to the mortgagee's origination of Direct Endorsement mortgages.
- B. Corrective Measures. The system should ensure that effective corrective measures are taken promptly when deficiencies in mortgage loan originations are identified.

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Certain deficiencies will be reported to the mortgagee by way of an Underwriting Report prepared by HUD during post-endorsement reviews of mortgages submitted for Direct Endorsement. On-site mortgagee reviews by HUD may also result in reported deficiencies.

- C. System Integrity. The quality control system should be independent of the mortgage loan production function.
- D. Desk and Field Reviews. The system would require a desk and field review of a sample of mortgage loans underwritten for Direct Endorsement submission.

The desk review of the property appraisal would include the value conclusion, the appraisal data, the validity of comparables, any changes made by the underwriter and the overall quality of the appraisal. Ten percent of appraisals done by the mortgagee staff appraisers and a sample of appraisals done by fee personnel must be field reviewed. Field reviews may be performed by the underwriter or by appraisers employed on a contract basis.

Five percent of compliance inspections done by mortgagee staff inspectors and a sample of compliance inspections done by fee personnel must be field reviewed.

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The desk review of the mortgage credit analysis would include the preliminary credit application, the agency application, the credit report, the verifications of employment and deposit and other sources of funds.

To monitor the quality of data provided by the credit reporting agency used by the mortgagee, back-up credit reports must be ordered from a different agency on a minimum of five percent of all applications or one case per month, whichever is greater.

The review of the underwriting decisions and certifications would include compliance with HUD underwriting requirements, sufficiency of documentation and the soundness of underwriting judgments.

- 2-7 USE OF MORTGAGEE STAFF TECHNICIANS. Mortgagees may use their own staff to perform appraisals and inspections (except as noted in Chapter 1, paragraphs 13 and 14), and mortgage credit analyses. To do so, mortgagees must nominate these individuals as part of the mortgagee approval process (see paragraph 2-3). The qualifications for the various disciplines are cited below. The nominees must attend training sessions conducted by HUD,

except that it is not necessary for an appraiser currently on HUD's fee panel to attend any training session prior to approval as a staff appraiser.

A. Appraiser.

- 1) Status of Employment. All staff appraisers employed by Direct Endorsement mortgagees must be salaried full-time employees (except in the case of a retiree, as stated below). The activities of the staff appraiser must be confined to the business of the mortgagee during normal working hours.

If permitted by his employer, the staff appraiser may accept assignments to appraise properties for conventional loan transactions from sources other than his employer for completion in the evenings, on weekends or other leisure time.

Mortgagee staff appraisers may be placed on the HUD panel of fee appraisers, at the discretion of the HUD Field Office. Fee assignments to mortgagee staff appraisers should be limited to cases that cannot be handled by other fee appraisers due to the large number of requests, illness, vacations, distance to the property, etc.

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If the mortgagee employs a staff appraiser, requests for assignments to fee appraisers should be limited to properties in remote locations, or to times when staff appraisers are unavailable because of illness, jury duty, or similar circumstances. At the discretion of the HUD Field Office, the mortgagee may also request assignments to fee appraisers for cases in excess of the volume which can be handled by its staff appraisers.

The one exception to HUD's requirement for full-time status is when a qualified appraiser, such as a retiree, wishes to work for only a limited number of hours per week. In this case, that employee may be hired to work for less than the standard work week, provided he receives the same benefits as a full-time employee and does not accept assignments from any source other than the employer.

- 2) Compensation. The staff appraiser must receive all benefits available to other full-time employees and the mortgagee must withhold taxes, social security, pension, health benefits and other deductions from his compensation as it does for other full-time employees.

The staff appraiser cannot be paid on a fee only basis nor a minimal base salary and commission nor a draw against commission. The staff appraiser should receive a reasonable base salary commensurate with average production and normal duties, which may then be supplemented by incentive or bonus features.

- 3) Experience. Except for the substitution of education provided below, an appraiser must have a total of five years experience.
 - a. Specialized. This experience must include at least two years specialized experience in valuation of property that demonstrates a knowledge of, and the ability to apply, principles, practices, methods and techniques of appraising.
 - b. General. The remaining experience may be general experience that demonstrates knowledge of general realty practices and principles as they relate to the value of real property, skill in collecting and assembling data, and the ability to prepare clear and concise reports. Such general experience may have been gained in types of work such as the sale or management of real estate and mortgage financing.

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- c. Education. Courses successfully completed in an accredited college or university may be substituted at the rate of 30 semester hours (or equivalent) for nine months of general experience.

Graduate education in a related field (real estate, appraising, engineering, architecture, property management, business administration, economics) may be substituted at the rate of 30 semester hours (or equivalent) for one-year of specialized experience. Completion of all requirements for a master's degree in one of these related fields may be substituted for two years of specialized experience.

- B. Inspector. The requirements regarding status of employment and compensation that apply to staff appraisers also apply to staff inspectors. A compliance inspector must have a total of five years experience.

- 1) Specialized. This experience must consist of at least two years experience in one of the following occupations:

- (a) A construction inspector of real properties for the purpose of determining compliance with construction requirements established by law.
 - (b) A construction engineer.
 - (c) An architect.
 - (d) A superintendent of construction for a builder of residential or commercial properties.
- 2) General. The remaining experience may be general experience that demonstrates knowledge of construction, including material estimating, cost estimating, work planning, construction work methods, inspection, quality control on materials and workmanship, and safety procedures.
- C. Mortgage Credit Examiner. A mortgage credit examiner must have three years experience in examination and analysis of financial and credit risk factors involved in the granting of loans. Such experience can be in the field of consumer financing, commercial financing or mortgage credit.

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- D. Dual Roles of Underwriter. The underwriter may perform the actual mortgage credit analysis provided the underwriter was nominated and approved as a mortgage credit examiner in addition to underwriter. If the underwriter wishes to perform appraisals, the underwriter must be nominated and approved as an appraiser. On the same mortgage, an individual may serve as both mortgage credit examiner and underwriter, but may not perform both the appraisal and the underwriter's review of that appraisal.
- 2-8 HUD DOCUMENT REVIEW. The Field Office is to review all applications and make the final determination of eligibility. The Mortgagee Approval Specialist (MAS) is to consult with other Field Office personnel, as well as the Single Family Development Division in Headquarters, as needed.
- HUD's review should be considered and performed in two parts: first, the analysis of the mortgagee as an eligible organization; and second, analysis of the mortgagee's staff.
- A. Eligible Organization. The history of the applicant is to be reviewed to determine if the mortgagee, or a principal officer, has at least five years experience in the origination of single family mortgages. Applicant must qualify as either a supervised, non-supervised or governmental institution mortgagee.

- 1) Supervised Mortgagee. If applicant cites supervised status, Field Office staff can verify this information, if necessary, by consulting Report Number F51FTCR, IMF Report of Mortgagees Approved to Participate in the Single Family Mortgage Programs in the Field Office or the CHUMS National Lender File.
- 2) Governmental Institution Mortgagee. If applicant cites this status of eligibility, Field Office staff can verify this, if necessary, by consulting report number F51FTCR or CHUMS.
- 3) Non-Supervised Mortgagee. A non-supervised mortgagee must qualify on the basis of adequate net worth. A minimum of \$250,000 is required for approval. Upon receiving an application from a non-supervised mortgagee, the Field Office is to contact the Lender Recertification Division in Headquarters. Headquarters staff will verify the applicant's net worth.
- 4) Quality Control Plan. The quality control plan is to be reviewed to determine if the four elements listed in paragraph 2-6 of this Chapter are included. Deficiencies are to be noted on the approval worksheet.

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(2-8A.) A quality control plan which does not contain the four Direct Endorsement elements is to be returned to the mortgagee for correction. When a quality control plan is returned, it must be emphasized that the review was made only for the four Direct Endorsement elements. Appendix 11 contains a suggested letter for this purpose. A mortgagee may not be approved for Direct Endorsement until a quality control plan has been submitted which contains the four required elements.

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- 5) Prior HUD Approval. Once a lender has successfully completed the pre-closing review stage and has been granted unconditional approval, the lender need not submit pre-closing test cases to additional HUD Field Offices. Pre-closing reviews are only required for lenders new to the Direct Endorsement program or those that have been subject to administrative sanctions. The lender requesting approval in additional

Field office jurisdictions must only provide the application form in Appendix 1, satisfactory evidence of its unconditional approval status, and a certification that no administrative sanctions (debarment or limited denial of participation) have been taken or are pending against the lender by any HUD Field Office.

The HUD Field Office should limit its review to the documents submitted and the certification concerning current administrative sanctions.

If administrative sanctions have been taken or are pending against the lender, the Field Office may require pre-closing test cases.

- B. Eligible Staff Personnel. Each application for approval as underwriter, appraiser and inspector is to include the nomination and a resume or Form HUD-92563. Resumes or Forms HUD-92563 are to be reviewed to determine if the qualifications of Paragraphs 2-4 and 2-7 are met. References should be checked.

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- (2-8B.) If a Direct Endorsement underwriter has already been approved by one HUD Field Office, the Department will now grant automatic approval of the underwriter in any HUD Field Office where the lender is approved to do business.

To request approval from any additional HUD Field Offices where the lender is approved (or is requesting approval) to do business, the DE underwriter's approval request must include a copy of his or her previous approval, CHUMS identification number, social security number, and a statement that the underwriter has not had administrative sanctions taken or that any are pending against him or her in any HUD Field Office. The underwriter is not required to provide documentation showing familiarity with market conditions in the geographic area. A Field Office may require up to 100 percent post-endorsement reviews on any underwriter granted approval by another Field Office.

To be eligible, the underwriter, appraiser or inspector must not be on HUD's Suspension and Debarment List, the Government-wide List of Parties Excluded from Federal Procurement or Non-procurement Programs, HUD's Limited Denial of Participation List, or on HUD's Credit Alert Interactive Voice Response System (CAIVRS). The HUD Field Office must check these sources to assure that the DE lender's staff are eligible.

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2-9 TRAINING. There is a mortgagee training requirement as part of the approval process. The training consists of three components: property valuation, mortgage credit analysis and Direct Endorsement underwriting procedures.

- A. Scheduling Training. HUD Regional Office should schedule a training session at least once every three months somewhere in the Region. HUD staff from either the Regional Office or Field Offices may conduct the training.

Where demand justifies, individual Field Offices may schedule and conduct training sessions. The Field Office must advise the Regional Office of

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(2-9A.) its plans. The Regional Office will notify all other Field Offices in the Region so that mortgagees are given the opportunity to attend the session.

- B. Content. Offices may take one of two approaches to the training. The first approach is to schedule three separate sessions; one for property valuation to be attended by the mortgagee's staff appraisers; one for mortgage credit analysis to be attended by the mortgagee's credit examiners; and one for Direct Endorsement underwriting procedures to be attended by the mortgagee's underwriters.

The second approach is to schedule two separate sessions, one for property valuation and one for mortgage credit analysis, both of which would incorporate appropriate underwriting components. The underwriter would attend both the property valuation and the mortgage credit sessions.

If requested by a number of mortgagees, the session should include training in HUD administrative procedures, such as completing HUD forms.

- 1) Property Valuation. The property valuation components are to include the following:
 - a. Use of the Uniform Residential Appraisal Report (URAR).
 - b. HUD valuation and architectural analysis.
 - c. Local conditions.
 - d. Appropriate schedules (taxes, maintenance, utilities, closing costs, etc.).
 - e. Inspections.
 - f. Complaint handling.

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- 2) Mortgage Credit Analysis. The mortgage credit analysis components are to include the following:
 - a. HUD mortgage credit analysis and guidelines.
 - b. Appropriate schedules (dollar mortgage limits, etc.).
 - 3) Direct Endorsement Procedures. The Direct Endorsement procedures for the underwriters are to include the following:
 - a. The underwriter's responsibilities.
 - b. The Direct Endorsement origination, endorsement and review process.
 - c. Use of the underwriter/mortgagee certification.
- C. Training by Multiple Field Offices. Once an underwriter has successfully completed the training session and been unconditionally approved by one Field Office, other Field Offices are to initially approve the underwriter without additional training, provided the underwriter has documented appropriate familiarity with market conditions in the geographic areas where mortgage loans will be

originated.

These subsequent Field Offices may condition the initial approval on the underwriter attending a future training session if there are particular underwriting situations which must be discussed with the underwriters. In lieu of additional training, Field Offices may prepare information packages describing underwriting particulars.

If a mortgagee applies to several offices in quick succession, the underwriter will be trained by one office, but the mortgagee's technical staff might need to be trained by another office. In such circumstances, Field Offices are to accept nominated staff for training, even though the mortgagee's application will not be complete until evidence is submitted that the nominated underwriter has been approved by another Field Office.

2-10 MORTGAGEE APPROVAL STATUS. There are two categories of mortgagee approval: the pre-closing status and unconditional approval.

- A. Pre-closing Review Status. Upon approval of the application and successful completion of the training requirement by the mortgagee's staff, the mortgagee is approved to participate in the pre-closing review status.

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An approval letter is sent to the mortgagee (Appendix 8). A copy of the letter is sent to the Office of Lender Activities and Land Sales Registration, in Headquarters. The only other time that office should be notified occurs when a mortgagee is removed from the program.

While in pre-closing status, the application package (property and borrower) is to be submitted to HUD for review prior to closing. If the loan was closed prior to HUD's review, the mortgagee is responsible for making necessary changes prior to insurance endorsement. When corrections cannot be made, HUD is under no obligation to insure mortgages processed in this manner.

- 1) Underwriter/Mortgagee Certification. Because the application package is submitted prior to closing the mortgage loan, the Underwriter/Mortgagee Certification form cannot be fully executed. The underwriter should complete all the information on the form with the exception of the closing date. However, the underwriter should not sign the certification.

Since the loan has not been closed, the mortgagee cannot make the closing certifications contained on the form. Therefore, the mortgagee's representative

should not sign the Certification for cases submitted for firm commitments during the pre-closing review. The documents required in blocks 7 and 8 of the Underwriter Certification may be submitted with the firm commitment application, or they may be submitted after closing with the submission for endorsement. The documents required in blocks 9 through 12 must be submitted with the firm commitment application.

- 2) HUD Review. While the mortgagee is in this approval status, every submission is reviewed in detail. This review includes the property appraisal, value determination, mortgage credit analysis and requirements specific to the mortgage insurance program.

If the application is eligible, a firm commitment to insure the mortgage is issued to the mortgagee. Should the submission contain deficiencies, HUD will send the mortgagee an Underwriting Report noting such deficiencies, regardless of whether a firm commitment is issued.

- 3) Fifteen Cases. Each office of the mortgagee seeking Direct Endorsement status is to participate in the pre-closing review. The review is to consist of not less than 15 cases.

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- (2-10A.) If acceptable underwriting is demonstrated with 15 submissions, unconditional approval may be granted. If 15 cases do not demonstrate acceptable performance, or should the first 15 cases not represent expected underwriting situations, the review may be extended for additional cases. Paragraph 5-3 describes underwriting deficiencies.

* The pre-closing review requirement is applied to the mortgagee, not to the underwriter. The 15 case requirement is applied by the Department as a whole, not by each Field Office.

Once a mortgagee has successfully completed the pre-closing review stage in one HUD Office, subsequent Field Offices should accept that approval. Field Offices should rely on the experience of other Field Offices in determining mortgagee eligibility.

Field Offices should call and verify that the mortgagee is performing acceptably with at least one Field Office that has granted the mortgagee unconditional approval.

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Since streamlined refinance transactions involve little in the way of underwriting, these cases do not count toward the 15 case requirement.

B. Unconditional Approval. Upon satisfactory completion of the pre-closing case review period, the office of the mortgagee receives unconditional approval. A letter of unconditional approval (Appendix 9) is sent to the mortgagee.

1) Addition of New Underwriter. When an unconditionally approved Direct Endorsement mortgagee adds a new underwriter to an existing underwriting staff, the new underwriter does not need to go through any pre-closing review. The existing underwriters are responsible for making certain that the new underwriter's work is acceptable.

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The new underwriter does have to meet the same basic eligibility requirements. The new underwriter must also attend a training session given by the local HUD Office or any other HUD Office.

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If serious errors are uncovered in the new underwriter's work, immediate action would be justified against both the mortgagee and the underwriter.

2) Changes in Technical Staff. The mortgagee must nominate new staff as described in paragraph 2-3E.

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CHANGES IN ELIGIBILITY CRITERIA. Mortgagees are to notify HUD whenever there is a change which would affect the Direct Endorsement approval status (for example, change in supervisory status, net worth or loss of approved underwriter).

A. Loss of Underwriters. If a mortgagee loses all of

its underwriters, it automatically loses Direct Endorsement approval and therefore will be required to go through the 15 cases pre-closing review upon hiring an acceptable underwriter.

The mortgagee must nominate its new underwriter (and any new technical staff) using Form HUD-54112, Application for Approval as Direct Endorsement Mortgagee and Nomination of Underwriting Personnel. A resume or Form HUD-92563, Application for Fee Personnel Designation must also be submitted. The underwriter (and any nominated technical staff), must successfully complete the appropriate training program, if this was not completed while with a previous employer.

- B. Hiring an Approved Underwriter. If a mortgagee which has not participated in Direct Endorsement hires an underwriter who was unconditionally approved with another mortgagee, the 15 case pre-closing review is required.

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- 2-12 AUTHORIZED AGENTS. Supervised mortgagees may, upon approval from HUD, designate another HUD-approved mortgagee as an authorized agent for the purpose of submitting applications for mortgage insurance in the supervised mortgagee's name and on its behalf to HUD.

The authorized agent, if approved as a Direct Endorsement mortgagee, may underwrite applications for Direct Endorsement, regardless of whether or not the supervised mortgagee has received Direct Endorsement approval. The appraisal may be done by a HUD-approved staff appraiser employed by the authorized agent or the supervised mortgagee (except as noted in Chapter 1, paragraphs 13 and 14).

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Either the agent or the principal mortgagee must be approved to originate loans in the Field Office jurisdiction. If the mortgagee which has Direct Endorsement approval has not been

approved through the local Field Office, the mortgagee must write to the local office requesting Direct Endorsement approval.

This letter must explain the agency relationship and the underwriter's familiarity with the geographic area. The letter must be accompanied by an application for approval, HUD-54112, a copy of its Quality Control Plan, its underwriter's resume, and copy of a letter granting unconditional approval through another HUD Field Office.

- 2-13 LOAN CORRESPONDENTS. A loan correspondent may participate in Direct Endorsement in a limited manner within the Field Office jurisdiction where it is approved to originate loans, provided its sponsor is approved for Direct Endorsement. Under this arrangement, the loan correspondent will take the initial application, handle the appraisal assignment with HUD, procure verifications of deposit and employment and the credit report, close the loan after it has been underwritten and submit the loan package to HUD for insurance endorsement.

The Direct Endorsement approved sponsor must perform the underwriting of the property and borrower and complete the Underwriter Certification part of Form HUD-54113. The appraisal may be performed by a HUD-approved staff appraiser employed by the sponsor (except as noted in Chapter 1, paragraphs 13 and 14). If all of its sponsors are approved for Direct Endorsement, the loan correspondent cannot order cases for prior approval processing, unless the HUD Field Office gives its approval.

If the principal mortgagee's Direct Endorsement approval is through another HUD Field Office, the mortgagee must write to the local office requesting Direct Endorsement approval. This letter must identify the loan correspondent relationship and the underwriter's familiarity with the geographic area. The letter must be accompanied by an application for approval, HUD-54112, a copy of its Quality Control Plan, its underwriter's resume, and a copy of a letter granting unconditional approval through another HUD Field Office.

The correspondent must complete the Mortgagee Certification part of Form HUD-54113. Since loan correspondents cannot perform any underwriting function (i.e., review of the appraisal, mortgage credit examination or underwriting), no specific Direct Endorsement training is required for the correspondent.

- 2-14 APPROVAL RESTRICTED TO PROPOSED CONSTRUCTION. A mortgagee may be approved to underwrite only proposed construction cases utilizing HUD conditional commitments or VA Certificates of Reasonable Value.

In such a case, the nominated underwriter need not have the property appraisal review experience, nor should the underwriter be required to attend the valuation component of the Direct Endorsement training.

- 2-15 FIELD OFFICE FILE ON DIRECT ENDORSEMENT MORTGAGEES. A file is to be established for each mortgagee office which applies for Direct Endorsement approval. The file is to contain the following:
- A. Mortgagee Application. The Application for Approval as Direct Endorsement Mortgagee and Nomination of Underwriting Personnel (Form HUD-54112), the resumes (or Form [HUD-92563](#)) for underwriters and other technical staff, and the Quality Control Plan. The mortgagee approval worksheet should also be included.
 - B. Decision Letters. The approval letters, or the rejection letter, if applicable.
 - C. Underwriting Reports. Individual case Underwriting Reports which are prepared by the technical branches during pre-closing and post-endorsement reviews.